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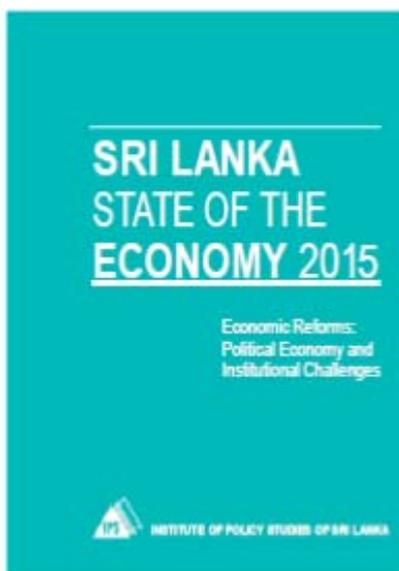
# POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

## LABOUR MARKET REFORMS FOR GROWTH

*From the IPS Flagship Publication*

*'Sri Lanka: State of the Economy 2015 Report'*



Following the global financial crisis that depressed growth, the call for reforms to create more and better jobs resonated across the world. Better jobs can improve economic growth, reduce poverty and aid social harmony. Unlike in the 1980s and the 1990s when short-term training programmes could train large numbers of workers for employment in the manufacturing sector, the current development plans require highly trained workers with experience who take longer to train. Unless proper planning is in place, the envisaged development in the country will be impeded by human resource constraints.

This Policy Insight is based on the SOE 2015 chapter "Labour Market Reforms for Growth", which concentrates on four main issues faced by the labour market.

First, the immediate challenge faced by the labour market is to source the workers

needed to operate envisioned development plans of the country. However, already the country is faced with skill shortages. Second, The population ageing and the working age population is declining. These demographic effects on the economy need to be mitigated through better utilization of existing labour resources. Third, effective human resource planning is hindered due to lack of information, limited coordination between different labour market institutions, and the changing structure and affiliations of the labour market institutions and the conflicting objectives of the different labour market institutions. Fourth, the duality in the labour market needs to be reduced to encourage job creation and productivity.

### **Worker and Skill Shortages**

Most industrial sectors are experiencing labour and skill shortages in the country. Labour shortages in the plantation sector have been an ongoing issue for decades. According to the Apparel Exporters Association, the industry is contemplating automation given difficulties in finding workers, with an estimated 15,000 vacancies in the industry in November 2014. The Institute of Construction Training and Development indicates that the construction sector is experiencing a severe shortage of skilled workers. According to the Tourist Hotels Association of Sri Lanka, the hospitality sector is facing a severe shortage of workers, especially skilled workers. According to the ICT Work Force Survey, there is a shortfall of about 458 graduates per year due to the shortage of graduates with required skills in technical as well as soft skills. To meet these increasing demands for skilled workers, the education and training sector in the country needs to improve. The country is endowed with a well-established network

**“Employment creation in the formal sector in the 2006 to 2012 period was mostly in the public sector. The creation of formal private sector.”**

### Age Structure of the Labour Force and its Growth

The changing age structure of the labour force and declining size can potentially slow economic growth. Sri Lanka's labour force is ageing.

The available supply of workers is growing at increasingly slower rates due to many reasons. Demographic transitions have reduced the size of the younger age groups, reducing the number of young people entering the working age population. Large numbers of working age population is not engaging in the labour force due to household work (mainly females), retirement and old age and engagement in studies (mainly youth). Inefficiencies in the education system also delay the entrance to the labour force (see graphic). In the absence of good jobs within the country, many workers are leaving the country for employment abroad. The emigration of skilled workers has increased in recent times.

In order to sustain a ready supply of workers, Sri Lanka will need to encourage population groups with low participation rates, such as youth, females and older persons, to engage more in the labour market. Given lower availability of workers, attention will need to be made to improve the productivity of existing workers through well thought-out human resource development plans that take into account

the changing structure of the population, and the fast changing shifting demands of the labour market.

### Issues with Human Resource Development

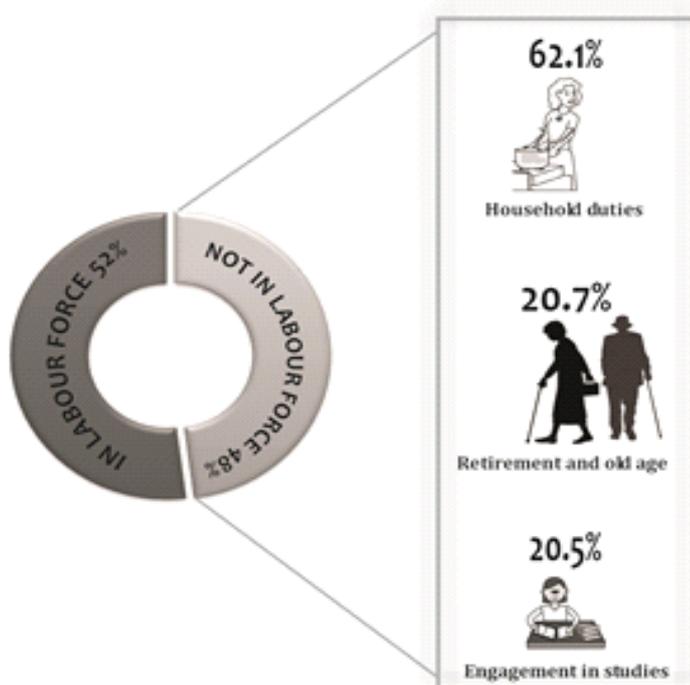
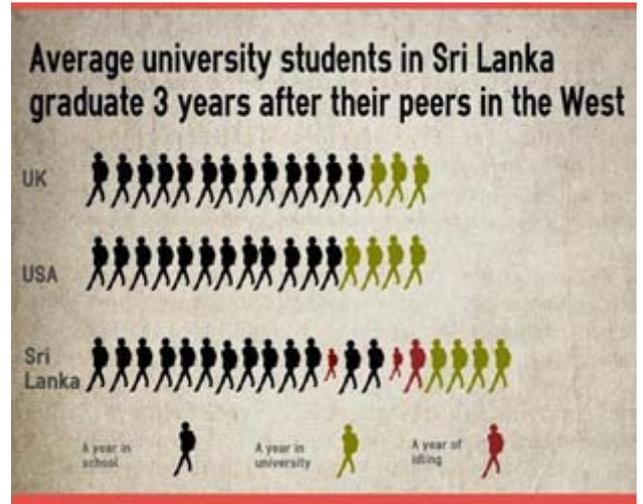
Human resource development is hindered by several factors in the country. Comprehensive, reliable and timely information on all aspects of the labour market are not available to guide planning. In addition, the need for a national level qualification system to assess skills of workers has been a pressing need of the country. Policies relating to human resources in the country are done by several institutions spread across different ministries. This has made holistic planning difficult.

### Duality in the labour market

There are clear indications of a dual labour market in Sri Lanka. Despite economic development, the structure of the labour market as not changed much over time. Around 60 per cent of employment in Sri Lanka is in the informal sector. The formal sector workers are legally entitled to receive a host of benefits. Although there were attempts to extend social protection to the

informal sector workers, this has not been successful.

Recent examples illustrate that countries with dual labour markets can result in high unemployment rates (when the unemployed are provided with an allowance by the state) or high levels of informality (as with the case of Asian countries). A dual labour market can reduce labour market flexibility and lower productivity and increase inefficiencies, such as unemployment and under employment.



**“Longer time taken in education has increased the time in education for youth, delaying their participation in the labour force.”**

## Policy Reforms

In order to address these issues, the following policy reforms need to happen on a priority basis to ensure unhindered development.

### **Policy priority 1: better information, better coordination for better human resource management**

A multitude of public and private training providers is in operation in the TVET sector in the country. Information on the quality and relevance of courses offered by these different institutions must be made available to job seekers so that they can make informed decisions on their careers and training providers. A central body should be in charge of drafting policies for the development of labour resources. Better coordination amongst labour market institutions is essential for strategic human resource planning in the country.

### **Policy priority 2: Improving skills and productivity of workers**

With the changing structure of the population and fast changing technology and global integration, the traditional modes of vocational and technical training models are unable to supply adequate numbers of skilled workers. Depending on the level of skills and experience needed, the planning will have to be done in advance, as skilled workers take longer to train. As such, in future, the training institutions will need to train workers for globally recognized certificates.

The present training programmes in the country are aimed at training young workers who come out of school. Technological change will require that presently employed workers also get on-the-job training so that they keep abreast of changes in technology.

Training institutions will also need to cater to the needs of the adult students so they can productively engage in the labour market.

### **Policy priority 3: Improving labour force participation of females, youth and elderly**

Different roles played by females will need to be taken into account when designing

policies for encouraging female labour force participation. Policy recommendations for improving female labour force participation adopted by other countries include, improving public assistance for child care and child care benefits, improving flexibility of employment by facilitating part-time work, reducing the discrimination of females in the labour market, and providing tax benefits for second earners.

Improving relevance and quality of education and managing the transitions to different levels of education more efficiently can reduce the time spent in education and improve labour force participation of youth. Upgrading and modernizing school education to match demands of the market, and improving vocational and technical training sector can make general and TVET education more efficient and relevant. Better information on the skill demands of the market can help young people choose their study courses wisely, facilitate course planning for technical and vocational training institutes, and reduce time taken for job search.

Lifelong training that reduces skills mismatches for older workers and more flexible work arrangements can improve the labour force participation of older workers.

### ***Policy Priority 4: Reducing the duality of the labour market and improving equity***

Reducing the cost of firing workers, shifting the responsibility of social protection from the firm to the public domain and improving the governance of unions so that union decisions truly reflect the interests of the workers are some policy options adopted by countries to reduce the gap between the insiders and outsiders.

Lobby groups consisting of employees already in the formal sector have prevented planned reforms in many instances in the country. Such union actions help to protect the interests of the workers, who have already gained formal sector employment and prevent workers from outside from entering the system. Union actions should be restricted to fighting for the interests of

**“A prerequisite for proper analysis of labour market trends and restructuring of training to match demand is information.”**

the workers. When unions operate with other objectives, reforms are brought in that could threaten the survival of industries. Ensuring democratic election of union leaders is necessary to ensure that unions are functioning democratically with the interest of the workers in mind.

As pointed out, the Sri Lankan labour market faces challenges on many fronts. To face these, the country needs to find the means to increase labour force participation, improve training and reduce mismatches in the labour market. Better information and a well-coordinated programme for developing human resources are needed to meet the challenge of worker and skill demands of the country in the coming years.



**INSTITUTE OF POLICY STUDIES OF SRI LANKA**

100/20 Independence Avenue, Colombo 7, Sri Lanka  
T: +94 11 2143100 / 2665068, F: +94 11 2665065  
www.ips.lk

This policy insight is based on the comprehensive chapter on “Labour Market Reforms for Growth” in the ‘Sri Lanka: State of the Economy 2015 Report’ (SOE 2015). The State of the Economy Report is the flagship publication of the Institute of Policy Studies of Sri Lanka. The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143100.